

## **Response of the Global Legal Entity Identifier Foundation (GLEIF) to the GBBC Digital Finance (GDF) Global Cryptoasset Standards Consultation**

February 10<sup>th</sup>, 2023

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the GBBC Digital Finance (GDF) Global Cryptoasset Standards Consultation. GLEIF welcomes the proposed guidelines and principles. GLEIF will focus its comments on how recognizing and adopting the Legal Entity Identifier (LEI) for all market participants is necessary to ensure transparent, fair and effective crypto asset markets.

First, GLEIF would like to provide a background on the LEI. The G20 Leaders developed the Global LEI System as a tool to enhance transparency in financial markets, thereby enabling the assessment and reduction of risk. The Global LEI Foundation was established by the FSB in 2014 to support the implementation and use of the LEI. The LEI supports financial stability and strengthens regulatory and supervisory frameworks across borders by enabling supervisory authorities to speak the same language thanks to the LEI. It is also leveraged as a consumer protection tool, providing transparency on the service providers and counterparties involved in financial transactions. Given today's business relationships and actors are complex, multi-layered, with business partners located in various jurisdictions, legal entity identification of all business actors needs a global standard, the LEI, more than ever. Crypto-asset transactions are not different than traditional financial transactions for this need. The limited regulatory data currently available, including on interconnections between crypto asset markets and the traditional financial system, offer only a partial and potentially inaccurate picture.

Consistent and reliable identification of the legal entities involved in crypto market transactions is necessary to fulfill the principles outlined in the Consultation document, from effective information sharing to robust risk management. This principle applies to all market participants regardless of their role and type of engagement.

GLEIF suggests that the recent FTX scandal reinforces the urgent need to adopt a consistent, high-quality, and globally recognized identifier, the LEI, for identifying parties and the crypto asset service providers in crypto-asset transactions. Therefore, GLEIF suggests the LEI should be an integral part of the Global Crypto Asset standard setting. Currently there is no mention of the LEI in the consultation document.

Leveraging a consistent, high-quality, and globally recognized identifier, the LEI, for crypto-asset service providers and crypto-asset issuer entities is essential to support interoperability and financial stability and tackle anti-money laundering in today's digital world. According to industry sources, more than 25,000 service providers are licensed or registered to undertake crypto-asset activities worldwide. However, there is no common way to identify these service providers. In global, digital marketplaces like those supporting digital asset transactions, the lack of standardization in identity

reduces public authorities as well as participants ability to evaluate exposure and risk. The LEI is the natural solution to overcome this problem – it is an existing global standard already applicable in 200+ jurisdictions and heavily embedded in financial markets regulations globally. Use of the LEI on a consistent basis would also facilitate post-trade settlement services and resolve trade discrepancies. This is crucial for a well-functioning crypto asset market.

Identifying the crypto-asset service providers, issuers, wallet providers and other intermediaries with the LEI would create visibility and transparency and enable effective communications between involved parties and regulatory authorities.

At the moment, there is no global way without significant manual intervention to determine if the same crypto-service provider is registered with many regulators. This leads to uncertainty for national authorities as well as participants in the global financial system. Leveraging the LEI across all jurisdictions as the tool to identify registered crypto-asset service providers and other intermediaries would result in a digitally enabled ecosystem. This would enable faster and more efficient monitoring as well as a decreased compliance burden for the private sector.

As highlighted under Principle 33 in the consultation paper, counterparty credit risk exposure is key to manage for a healthy financial market. And the core of managing the counterparty risk is knowing who your counterparty is. The recent collapse of the FTX is an extremely important reminder of the value proposition of the LEI and the importance of unique and open identification of the involved legal entities and the relationships between those entities. FTX's non-U.S. business is not regulated for day-to-day operations in the U.S., but the company filed for bankruptcy in the U.S. for roughly 130 affiliated companies. So the question arises, can firms quickly and easily identify their exposure to FTX and its affiliates? And the response is a resounding "No". However, if the entire corporate and fund structure were clearly identified in the Global LEI System, investors and regulatory authorities around the world would have had information on FTX and its network immediately available.

Some jurisdictions have already included the LEI in their crypto-asset service related regulations such as the European Union's Regulation on Markets in Crypto-assets, and amending Directive (EU) 2019/1937. Furthermore the interVASP messaging standard 101 already includes the LEI as an optional identifier for the originator and beneficiary VASP, meaning travel solutions are already enabled to carry the LEI where it is available.